# IOL Chemicals and Pharmaceuticals Limited

July 06, 2021

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 140.00 | CARE A+; Stable (Single A Plus; Outlook: Stable ) | Revised from CARE A; Stable (Single A; Outlook: Stable) |
| Short Term Bank Facilities | 210.00 | CARE A1+ (A One Plus ) | Revised from CARE A1 (A One) |
| **Total Bank Facilities** | **350.00 (Rs. Three Hundred Fifty Crore Only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The revision in the ratings assigned to the bank facilities of IOL Chemicals and Pharmaceuticals Limited (IOL) takes into account its improved financial risk profile in FY21 (refers to period from April 01 to March 31) marked by healthy growth in the profitability and improved capital structure. Further, the revision is also on account its strong liquidity and strengthening of debt service metrics. The ratings continue to derive comfort from the experience of its promoters and the management team, integrated manufacturing facilities and well-established market position in key product (Ibuprofen) manufactured by the company. The ratings continue to be tempered by the concentration of its total operating income through limited key products and susceptibility of IOL's operating margin to raw material price/price volatility.

**Rating Sensitivities:**

Positive Factors**:** *Factors that could lead to positive rating action/upgrade*

- Strong and sustained improvement in the operating performance resulting in growth in its total operating income and sustained EBIDTA margin of more than 25%.
- Diversification in product portfolio and reducing dependency on its main product viz. Ibuprofen & ethyl acetate.

Negative Factors**:** *Factors that could lead to negative rating action/downgrade*

- Reduction in the PBILDT margins below 15% on a sustained basis impacting its credit profile.
- Any major debt funded capex adversely impacting capital structure with overall gearing of more than 0.5x

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Improvement in financial risk profile marked by healthy cash accruals**

During FY21, the company has posted a total income of ~Rs.1990 crore (FY20 :Rs.1909 crore). The increase in revenue is on account of increase in the sales quantity coupled with higher sales realization majorly in Ethyl Acetate. The sales volume for Ethyl Acetate has increased ~5% in FY21 while the realization of Ethyl Acetate increased around 12% in FY21.The two major products that contribute ~80% to the total sales are Ibuprofen and Ethyl Acetate.

The company's profitability margins have been consistently improving from last 3 years from 12.11% in FY18 to 30.92% in FY21 primarily due to an increase in sales realization in Ibuprofen and increase in capacity of Ethyl Acetate. In addition, since the company is into the manufacturing of chemicals, it derives the benefit of backward integration which leads to better margins. Consequently, GCA improved to Rs.464.76 cr in FY21 as compared to Rs.398.07 crore in FY20. However, going forward the margins are expected to be impacted to some extent due to moderation in the prices of Ibuprofen. Nevertheless company is generating healthy profitability from other products as well and making continuous efforts to expand the product portfolio to sustain the profitability.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

The overall gearing of the company improved to 0.15x as on March 31, 2021 vis-à-vis 0.30x as on March 31, 2020 on account of accretion of profits to net worth coupled with absence of long term debt and minimum working capital utilization. The total debt to GCA also stood at 0.39 years as on March 31, 2021 vis-à-vis 0.14 years as on March 31, 2020 owing to higher outstanding of LC acceptance. Further, the interest coverage indicators have strengthened and the management has plans for capex for foraying into new products but the same will be funded from the cash and internal accruals as guided by the management and the capital structure of the company is expected to remain strong with continued generation of healthy profits.

**Experienced promoters and management team**
The promoter Mr. Varinder Gupta has more than three decades of experience with substantial experience in industry. The management team is also supported by a highly experienced and technically qualified team of professionals at various designations.

**Well established business position**
IOL has a market presence across more than 50 countries with sales contribution from exports forming around 31% of the total sales in FY21 (PY: 34%). The company's overseas customers are spread across several countries including Spain, Brazil, Hungary, USA, Indonesia, Bangladesh etc.
Moreover, the company is one of the largest manufacturer of Ibuprofen (capacity of 12000 MTPA) and has the second largest manufacturing capacity (12000MTPA) for Iso Butyl Benzene (key raw material for Ibuprofen). Ibuprofen has been one of the key product of the company which has contributed around 50% to the company's revenue over the past few years.. In addition, IOL manufactures other chemicals which include Ethyl Acetate, Acetyl Chloride and Mono Chloro Acetic Acid, and other APIs which include Pantoprazole, Metformin, Clopidogrel and Fenofibrate. Further, the company has increased the installed capacity of Ethyl Acetate in Q1FY22 from 87,000 MTPA to 1,00,000 MTPA.

**Integrated manufacturing facilities**
IOL has an integrated manufacturing facility for chemicals and APIs. The chemical manufacturing facilities of the company gives the advantage of backward integration for final pharmaceutical products like Ibuprofen. The backward integrated plants add to the strength of the company as major raw materials for Ibuprofen (40% of the total raw material cost) which include Iso Butyl Benzene, Acetyl Chloride and Mono Chloro Acetic Acid are produced in-house by the company.
Further, the Company also has a 17 MW co-generation captive power plant which produces steam and power. The same gives IOL the advantage of lower power related expenses. In addition, steam produced from the plant is used in the manufacturing of most of the Key Starting Materials (KSM) of APIs in-house.

**Industry Outlook**
The 11.6% growth in industry's sales during the period April-December 2020 was led by an increase in pharma exports from India which rose by 15.8% in the first 9 months of FY21. This was backed by easing lockdown restrictions, product launches and demand for drugs in the international market for treatment of Covid-19. The increase in pharma exports was lower at 9.8% y-o-y in the June 2020 quarter due to Covid-19 disruptions which improved to 20.6% and 16.8% in the September 2020 quarter and the December 2020 quarter, respectively.
The upward momentum in pharma industry's sales has continued in the March 2021 quarter. Thus, the industry is expected to grow by about 11% and stand at around USD 45 billion during FY21. In FY22, the Indian pharma industry is estimated to grow at the rate of about 10%-11% under normal scenario backed by demand from domestic and export markets. Considering the one-time opportunity that India has on account of Covid-19 vaccines, it is likely that the Indian pharma industry will augment by around 14%-15% during FY22.

**Liquidity: Strong**
The liquidity profile of the company is strong with the average working capital utilization of ~5% for the last 12 months ending May 2021 leaving sufficient buffer in the working capital lines. The company has an operating cycle of 63 days as on March 31, 2021. The company usually have collection period of 45-50 days while it gets 50-55 days as credit period from its suppliers. As on March 31, 2021, the company had healthy free cash and cash equivalents of Rs.355.08 crore. Company has some capex plans which will primarily be funded by the cash or internal accruals which are getting generated. Current ratio and quick ratio stood at 3.43x (PY: 1.92x) and 2.41x (PY: 1.45x) respectively as on March 31, 2021. Further, the company has no long term debt and working capital outstanding as on March 31, 2021 also stood NIL. The company has LC outstanding of Rs.191 crore as on March 31, 2021.

**Key Rating Weaknesses**

**Concentrated revenue stream**
IOL derives around 80% of the revenue from the sale of two products viz. Ibuprofen (49% of the total sales) and Ethyl Acetate (31% of the total sales) which exposes the company to revenue concentration risk. Though the company has been diversifying its product portfolio by manufacturing new APIs which include Pantoprazole, Metformin, Clopidogrel, Fenofibrate and Lamotrigine. The revenue from these other products are yet to have a significant contribution in the total revenue which will be a key rating sensitivity for any upgrade in the ratings further.

**Raw material availability and price volatility risk**
Raw materials consumed remain the major cost driver for IOL. It procures majority of the raw materials from domestic market). The prices of the same are volatile in nature and prices have fluctuated in the past. Prices of both the products has been fluctuating over last few years which makes company expose to the price volatility risk and decrease in prices will impact the margins of the company as the revenue of the company is majorly dependent on two products viz. Ibuprofen and Ethyl Acetate. However, the company has been successful in passing on the rise in prices of raw materials to the customers without affecting the margins.

**Regulatory Risk**
The pharmaceutical industry is highly regulated in many other countries and requires various approvals, licenses, registrations and permissions for business activities. Any delay or failure in getting approval for new product launch could adversely affect the business prospect of the company. However, the company's manufacturing facility of Ibuprofen has been approved by USFDA in FY20 and the next audit will be after 2-3 years. In addition, the company has also received approvals from the pollution control boards to ensure any regulatory violations.

**Analytical approach:** Standalone.

**Applicable Criteria**
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology - Manufacturing Companies]
[Liquidity Analysis of Non-financial sector entities]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Criteria for Short Term Instruments]
[Rating Methodology – Pharmaceutical Sector]

**About the Company**
IOL was incorporated as a public limited company in September 29, 1986 by Mr. Varinder Gupta and Mr. Rajinder Gupta (promoter of Trident Limited) to setup acetic acid manufacturing facility. IOL's manufacturing facility is located at Barnala, Punjab, having total capacity of 1,35,068 Metric Tonne Per Annum (MTPA) as on March 31, 2021. IOL is involved in manufacturing of Chemicals (Ethyl acetate, acetyl chloride, iso-butyl benzene etc.) and Active Pharmaceutical Ingredients (Ibuprofen, metformin, etc.). As on March 31 2021, the total installed capacity of Ibuprofen is 12000 MTPA.

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) |
|---|---|---|
| Total operating income | 1909 | 1990 |
| PBILDT | 588 | 615 |
| PAT | 361 | 445 |
| Overall gearing (times) | 0.30 | 0.15 |
| Interest coverage (times) | 28.13 | 105.56 |

*A: Audited*

**Covenants of rated instrument / facility:** *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable.

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Non-fund-based - ST-BG/LC | - | - | - | 210.00 | CARE A1+ |
| Fund-based - LT-Working Capital Limits | - | - | - | 140.00 | CARE A+; Stable |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1. | Term Loan-Long Term | LT | - | - | - | 1)Withdrawn (07-Jul-20) | 1)CARE A-; Stable (02-Jul-19) | 1)CARE BBB+; Stable (31-Dec-18) |
| 2. | Non-fund-based - ST-BG/LC | ST | 210.00 | CARE A1+ | - | 1)CARE A1 (07-Jul-20) | 1)CARE A2+ (02-Jul-19) | 1)CARE A2 (31-Dec-18) |
| 3. | Fund-based - LT-Working Capital Limits | LT | 140.00 | CARE A+; Stable | - | 1)CARE A; Stable (07-Jul-20) | 1)CARE A-; Stable (02-Jul-19) | 1)CARE BBB+; Stable (31-Dec-18) |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**

**Annexure 4: Complexity level of various instruments rated for this Company**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT-Working Capital Limits | Simple |
| 2. | Non-fund-based - ST-BG/LC | Simple |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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